

Message Text

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LIMDIS

EB FOR KATZ

E.O. 11652: GDS

TAGS: UNCTAD, ETRD, EAGR

SUBJ: COCOA NEGOTIATIONS: PRICE CONTACT GROUP

REF: (A) GENEVA 7651, (B) GENEVA 7693

1. FIRST MEETING OF SMALL PRICE CONTACT GROUP HEADED BY COUNCIL CHAIRMAN LAI HELD MORNING OF OCT 10. AFTER LAST MINUTE ADDITIONS, FOLLOWING COUNTRIES REPRESENTED PRODUCERS: GHANA, NIGERIA, IVORY COAST, BRAZIL, CAMEROON AND ECUADOR; CONSUMERS: U.S., USSR, EC SPOKESMAN, ITALY, JAPAN AND CANADA. MEETING DELAYED HALF HOUR BY LATE ARRIVAL OF EC REPS.

2. WE UNDERSTAND EC MEMBERS HAD BITTER DISPUTE OVER WHO WOULD REPRESENT THEM. FIRST SUGGESTION WAS EC REP PLUS GERMANY (LARGEST CONSUMER) BUT UK AND NETHERLANDS OBJECTED. SECOND SUGGESTION WAS GERMANY AND FRANCE. ONLY MERIT OF EC SELECTION IS THAT IT EQUALLY DISPLEASES ALL EC MEMBERS, ESPECIALLY SINCE ITALY NEVER RATIFIED
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1972 COCOA AGREEMENT AND EC BUDGET HAS BEEN PAYING

ITALY'S DUES FOR PAST THREE YEARS.

3. MEETING OPENED BY CHAIRMAN LAI WHO ASKED IF MEMBERS HAD ANY REACTIONS TO 50 CENT "REFERENCE POINT" HE HAD FLOATED EARLIER (REFTEL A). WHEN NO ONE REACTED, EC REP INTERVENED TO STATE EC COUNTRIES NEED DECISION BY OCTOBER 15 AT LATEST, IN ORDER TO OBTAIN APPROVAL OF NATIONAL GOVERNMENTS AND EC COUNCIL. EC REP OFFERED NO FURTHER COMMENT OR SUGGESTIONS ON PRICE ISSUE.

4. IVORY COAST REP SAWADOGO SAID DISCUSSIONS COULD PROCEED ON ONE OF TWO HYPOTHESES: (A) NEW AGREEMENT WOULD BE SAME AS OLD WITH UNREALISTICALLY LOW PRICES AND INOPERATIVE ECONOMIC PROVISIONS; THIS APPEARED TO BE HYPOTHESIS OF EC. (B) NEW AGREEMENT WOULD HAVE AN ACTIVE BUFFER STOCK ARRANGEMENT WITH A PRICE RANGE CLOSE TO THE MARKET OPERATING TO STABILIZE PRICES; THIS APPEARED TO BE HYPOTHESIS OF U.S. AND WAS FAVORED BY IVORY COAST.

5. U.S. REP O'DONNELL REITERATED HE UNINSTRUCTED ON PRICE LEVELS. HOWEVER, SAWADOGO HAD RAISED A GOOD POINT; I.E., THAT DISCUSSION OF SPECIFIC NUMBERS WAS RELEVANT ONLY IF WE AGREED ON A CLEAR DEFINITION OF WHAT THE MINIMUM AND MAXIMUM PRICES TO BE DEFENDED ARE IN THE AGREEMENT. U.S. REP ILLUSTRATED POINT BY REFERRING TO U.S. PROPOSAL FOR 20 CENT RANGE WITH DEFENSE POINTS FIVE CENTS ABOVE AND BELOW THE "MINIMUM" AND "MAXIMUM." HE SAID EITHER INNER OR OUTER BANDS OF RANGE COULD BE DEFINED AS THE MINIMUM AND MAXIMUM.

6. USSR REP SAID HE HAD A SPECIFIC PROPOSAL TO MAKE. THE USSR FAVORED THE OLD AGREEMENT WITH A BROADENED PRICE RANGE AND AUTHORITY FOR THE COUNCIL TO REVIEW AND MODIFY IT. THE USSR PROPOSED A MINIMUM PRICE OF 37 CENTS, A MID-POINT OF 44 CENTS AND A MAXIMUM PRICE OF 51 CENTS. THE USSR BELIEVED THE AGREEMENT SHOULD BE STRENGTHENED SO THAT THE MAXIMUM WAS AS WELL DEFINED AS THE MINIMUM.

7. JAPANESE REP INDICATED HE UNINSTRUCTED ON PRICES
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BUT THOUGHT HIS GOVERNMENT WAS FLEXIBLE ENOUGH TO ACCEPT ANYTHING FROM THE EARLIER EC PROPOSAL OF 32-46 CENTS TO THE USSR'S 37-51 CENTS.

8. IVORY COAST ATTACKED THIS EARLIER EC PROPOSAL AS ONE WHICH WOULD KEEP PRODUCERS IN PERMANENT POVERTY. IVORY COAST SAID 50 CENTS SHOULD BE CLOSE TO BOTTOM OF RANGE AND SAID IT WOULD PREFER

50-75 CENTS, BUT MIGHT ACCEPT 45-75 CENTS IN THE RIGHT ARRANGEMENT.

9. BRAZIL (RAFFAELLI) SAID ITS INSTRUCTIONS CONSIDERED "SOMETHING A FEW CENTS ABOVE 50 CENTS" AS A SUITABLE MID-POINT FOR THE RANGE OF A NEW AGREEMENT.

10. NIGERIA (WHICH CURRENTLY GUARANTEES ITS FARMERS 48 CENTS PER POUND) SAID IT COULD NOT ACCEPT FIGURES WHICH WOULD MEAN IT HAD TO SUBSIDIZE FARMERS AT THE MID AND HIGH POINTS OF THE RANGE.

1. GHANA SAID ITS POSITION NOT FIRM YET, BUT IT THOUGHT RANGE OF 50-68 CENTS COULD BE A GOOD STARTING POINT FOR DISCUSSIONS.

12. ECUADOR SAID NEW AGREEMENT SHOULD ESTABLISH OPERATING MECHANISMS AROUND CURRENT MARKET LEVELS (ROUGHLY 55 CENTS PER POUND). ECUADOR LISTED A NUMBER OF "FACTS" I.E., INCREASED PRODUCTION COSTS, TO JUSTIFY ITS POSITION.

13. U.S. REP SUGGESTED GROUP MUST ALSO TAKE INTO ACCOUNT SOME OTHER "FACTS" SUCH AS ANNOUNCEMENT EARLIER THAT MORNING THAT THE THIRD QUARTER COCOA GRIND IN THE UK IS DOWN 28 PERCENT FROM THE PREVIOUS YEAR. U.S. SAID SAME THING IS HAPPENING IN THE U.S. AND PRODUCERS ARE DECEIVING THEMSELVES IF THEY THINK THEY CAN MAINTAIN BOTH HIGH PRICES AND HIGH VOLUMES. U.S. ALSO MENTIONED THE DRAMATIC GROWTH IN THE USE OF COCOA SUBSTITUTES IN THE PAST TWO TO THREE YEARS. U.S. REP GAVE HIS PERSONAL OPINION THAT PRICE RANGES SUGGESTED BY PRODUCERS WERE UNREALISTICALLY HIGH; WERE AN ATTEMPT TO STABILIZE
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THE MARKET AT ARTIFICIAL LEVELS; AND WOULD FIND A POOR RECEPTION IN THE U.S. GOVERNMENT.

14. THE IVORY COAST SUGGESTED THAT SINCE PRODUCERS AND CONSUMERS FOUND THEMSELVES SO FAR APART, THE GROUP SHOULD CONSIDER THE POSSIBILITY OF AN AGREEMENT WITH NO FIXED PRICE LEVELS, BUT GIVE THE COUNCIL AUTHORITY TO ESTABLISH PRICE OBJECTIVES ANNUALLY IN THE LIGHT OF ESTABLISHED CRITERIA. U.S. SAID IDEA WAS INTERESTING, SIMILAR TO COFFEE AGREEMENT, ADJUSTMENT WOULD HAVE TO BE DOWN AS WELL AS UP, BUT THE GROUP SHOULD LOOK INTO IT. BRAZILIAN REP SAID HIS INSTRUCTIONS AUTHORIZED HIM TO SUPPORT THE IDEA, BUT THE PRICE RANGE FOR THE FIRST YEAR MUST BE WRITTEN INTO THE AGREEMENT. EC REP SAID SUCH AN APPROACH MIGHT BE CONTRADICTIONARY TO

STABILIZATION OBJECTIVE OF THE AGREEMENT.

15. CHAIRMAN THANKED PARTICIPANTS FOR CORDIAL ATMOSPHERE AND FRANK VIEWS. HE SAID HE WOULD CONSULT MEMBERS PRIVATELY AND SET UP SECOND MEETING. SECOND MEETING OF PRICE CONTACT GROUP NOW SCHEDULED TENTATIVELY FOR MORNING OF OCTOBER 14.

16. COMMENT: DESPITE PLEAS OF URGENCY FROM CHAIRMAN LAI AND OTHERS, AS NEGOTIATIONS ENTER THE FINAL WEEK, THE UNHURRIED PACE CONTINUES IN THE PRICE CONTACT GROUP AND IN THE ECON COMMITTEE WORKING GROUP CONSIDERING REVISIONS TO THE OLD AGREEMENT. THE EC, WHICH HAS BEEN STRUGGLING TO ESTABLISH COMMON POSITIONS ON ALL MATTERS, HAS YET TO PRODUCE AGREED PROPOSALS ON ANY MAJOR SUBSTANTIVE ISSUE EXCEPT THEIR INITIAL PRICE PROPOSAL WHICH REFLECTED THE LOWEST COMMON DENOMINATOR IN THE GROUP. PRODUCERS AND MOST OTHER CONSUMERS ARE BECOMING INCREASINGLY IRRITATED BY EC INDECISION. SINCE THE ECON COMMITTEE DECIDED TO "SET ASIDE FOR THE TIME BEING" U.S. PROPOSALS, THE U.S. DEL HAS MAINTAINED A LOW PROFILE IN MEETINGS. HOWEVER, THAT HAS NOT NOTICEABLY SPEEDED UP NEGOTIATIONS AS OTHER CONSUMERS AND PRODUCERS QUIBBLE OVER THE MOST MINOR REVISIONS PROPOSED TO THE CURRENT AGREEMENT. THERE IS A GROWING FEELING AMONG DELEGATES THAT IT IS IN-CONFIDENTIAL

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CREASINGLY UNLIKELY A REVISED SECOND AGREEMENT WILL EMERGE FROM THIS NEGOTIATION. MORE LIKELY IS A DECISION TO EXTEND THE PRESENT AGREEMENT FOR ONE YEAR WITH A NEW PRICE RANGE, PERHAPS THAT PROPOSED BY THE USSR. IT IS NOT AT THIS TIME CLEAR WHERE THE RESPONSIBILITY AND BLAME FOR SUCH A DECISION WOULD BE PLACED. THE FINAL WEEK SHOULD RESULT IN SOME FANCY FOOTWORK BY ALL MAJOR PRODUCER AND CONSUMER DELEGATIONS. IT WILL BE INTERESTING TO SEE IF AND HOW LONG THE EC COUNTRIES HOLD THEIR ACT TOGETHER. ABRAMS

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